

Webinar Q&A: How trade secrets can impact your business

PRESENTED BY FRANCISCO GARCÍA VALERO

1. For SMEs it is often complicated and expensive to patent. Is it easier and cheaper to protect inventions with trade secrets?

Not necessarily. It is true that patenting can be expensive, but it is also expensive keeping secrecy over the time. It can also be complex to find evidence in case of infringement because the lack of registry.

In addition, if financing is sought, the patent may be more appropriate or even mandatory in the case of public funding.

The choice between patent and TS (when both are possible) must be made mainly for other reasons.

2. What is the international legal framework that regulates trade secret protection?

An internationally agreed definition of trade secrecy can be found in Article 39 of the TRIPS Agreement (Agreement of Trade-Related Aspect of Intellectual Property Rights). This definition was also used in the EU directive on the protection of trade secrets adopted in 2016 and already transposed into the legislation of the 27 member countries

3. I have a TS that I want to protect in several countries. Are the laws that govern trade secrets comparable between countries?

Legislation on TS is comparable in the EU. After the adoption in June 2016 of the directive on TS and its transposition by the member states, the definitions of TS, forms of misappropriation, reverse engineering and parallel innovation have been harmonized.

The directive also harmonizes the civil (but not the criminal) means through which victims of misappropriation of TS can request protection, such as:

- stopping the unlawful use and further disclosure of misappropriated TS
- the removal from the market of goods that have been manufactured on the basis of a TS that has been illegally acquired

- the right to compensation for the damages caused by the unlawful use or disclosure of the misappropriated TS.
- the right to compensation for damages caused by the illicit use or disclosure of the stolen industrial secret.

In relation to other countries, there is a TRIPS Agreement to provide adequate standards, scope, and use of TS, as well as effective and appropriate means for its application, however there is indeed a great disparity between countries.

4. Is the protection of trade secrets similar in South America?

TS (called industrial or business secrets), in the Andean Community are regulated by Decision 486 (Art. 260 et seq.) of the treaty and is similar to the legal framework of the EU, although WIPO says that in Latin America "it is only protectable via the discipline of unfair competition, that is, the one that sanctions commercially dishonest acts". In the specific case for a country, the details of the national regulation may be slightly different. More details in Spanish in https://webcache.googleusercontent.com/search?q=cache:MAY7MlcCFZEJ:https://www.wipo.int/edocs/mdocs/innovation/es/wipo_ifia_bue_00/wipo_ifia_bue_00_7.pdf+&cd=1&hl=es&ct=clnk&gl=es&client=firefox-b-e

5. In which case do firms prefer to patent instead of protecting with TS and vice versa?

What we have discovered in our studies is that in many cases firms use both simultaneously but there is a certain propensity to use patents for new-to-market innovations and TS innovations over new-to-the-firm innovations. Not surprisingly, patents are preferred for physical goods and TS for services. Secrecy is preferred when firm are involved in R&D cooperation especially with countries outside the EU, and even more so with Asian countries. In a market with strong competition for quality, both are used to protect innovation, but only TS when the competition is based on price like commodity-type markets.

6. How do I protect a trade secret using IPRs, without revealing the trade secret?

There are several parts to an invention. You could reveal some part of the invention by patenting it and other parts could be kept secret. This could be a good way to do it, because there is going to be a part of the invention that will be probably easy to do reverse engineering. In this case, you do not want to keep it secret because people will easily find it. The part that are difficult to be reversed engineered can instead be kept secret. By combining patent and trade secrets, you will block anyone who does not know the trade secret to use the patent, because they will need both to produce a product from the invention.

This is the case, for instance, of an iPhone. Apple has many patents and secrets as well, working in combination. In addition, Apple decided that patents and trade secrets were not enough, and it was important to have a good trademark – iPhone – and a good design. This is an example of a very sophisticated strategy to protect an invention. To protect their iPhone, Apple not only uses IP, but also other appropriability mechanisms like speed to market.

7. Can you give an example where it is preferable to protect an invention with patents and secrets at the same time?

It could be the case for electronic products where parts that cannot be discovered by reverse engineering can be protected with a TS (even more so if it could not be patented) and parts that are easier to discover with a patent.

We have many examples of successful electronic equipment that, in addition to patents and designs, use trademarks and designs to gain a competitive advantage over their competitors.

8. What do SMEs prefer patents or TS?

This depends on the sector, the type of innovation and the country but generally all firms slightly prefer the use of TS independently of size of sector. However, large firms use both patents and TS more often than SMEs, perhaps due to greater sophistication and resources.

In countries like Finland or Germany, SMEs use almost as many TS as large ones and the difference is observed in the number of patents much larger for big firms. In Latvia, Bulgaria, Portugal or Croatia large firms and SME patent almost equally but large firms use secrets considerably more than SMEs.

These observations were done before the transposition of the TS directive, now they may have changed

9. In which economic sectors are TS used the most?

In general, in manufacturing where patents are also used.

There is one important outlier: M72¹ ‘Scientific research and development’ is the sector with the highest use of both trade secrets and patents, exhibiting a ‘manufacturing’ profile.

Very high use of both patent and trade secrets can also be observed in:

- C26, Manufacture of computer, electronic and optical products

¹ These codes refer to NACE (Statistical Classification of Economic Activities in the European Union).

- C29, Manufacture of motor vehicles, trailers and semi-trailers

There are two sectors with a very high use of trade secrets and low use of patents perhaps due to the difficulty of patenting innovations in these sectors:

- M71, Architectural and engineering activities; technical testing and analysis
- J62, Computer programming, consultancy and related activities.

10. What is the maximum duration of a TS?

In principle there is no protection limit for a secret, the protection would end if reverse engineering is performed.

11. Where are TS used more?

The highest intensity of use is Finland and then Germany. Germany is also the country with the most intensity of patents by far.

12. Is it true that some companies do not report that their secrets have been violated?

It is true, some companies analyze the risk of being 'revictimized' by making the loss public and consider it more convenient not to denounce it.

13. Can more than one person have trade secret rights to the same information?

It is possible that more than one person or entities can claim rights to the same trade secret on the same technology or commercial information if both independently developed that technology and both take reasonable steps to keep it a secret, as long as the technology is not "generally known". Trade secret protection does not provide the exclusive right to exclude third parties from making commercial use of it.

14. What protection is provided against the use of secret information by employees or former employees?

Employees may be required to sign agreements that protect trade secrets. In particular, when contractors or employees leave, it is important to ensure that they will not compete with the firm after they leave, as well as to sign a confidentiality agreement. If those agreements are violated, an employee could face penalties, along with damages to the company.

15. Is there a strategy to protect a trade secret within a company with a big job rotation?

Employees may be required to sign agreements that protect trade secrets. In particular, when contractors or employees leave, it is important to ensure that they will not compete with the firm after they leave, as well as to sign a confidentiality agreement. If

those agreements are violated, an employee could face penalties, along with damages to the company.

16. When compared to patents and other forms of IP protection, what are the advantages and disadvantages of trade secret protection?

Some advantages of trade secrets include:

- Trade secret protection is not limited in time It may continue indefinitely as long as the secret is not revealed to the public;
- Trade secrets involve no registration costs (though keeping the information confidential may entail high costs in certain cases);
- Trade secrets have immediate effect; and
- Trade secret protection does not require compliance with formalities or public disclosure.

Disadvantages especially when the information meets the criteria for patentability:

- If the secret is embodied in a product, others may do “reverse engineering” it and discover the secret
- A trade secret may be patented by someone else who developed the relevant information by legitimate means
- Once the secret is made public, anyone may have access to it and use it at will.
- TS is more difficult to enforce than a patent. Often, it is quite difficult to prove the violation of trade secrets.
- Selling or licensing trade secrets is more difficult than patents.

17. How do trade secrets get stolen?

The most normal thing is that someone who has legitimate access steals it, or that there is a leak due to a poorly protected computer and a poorly protected office.

18. How can a company conduct a trade secret audit?

Develop a plan, communicate details to stakeholders and custodians, collect the relevant information, identify the TS and review policies, agreements and security measures.

19. Trade secrets are often associated with large businesses concerned about employees leaving with important knowledge. How can SMEs and individual creators take advantage of trade secret protections?

They not only can, but they also often do. The measures to protect the TS are similar to those of large firms.

20. What advice do you have for SMEs when it comes to organizing and discussing their trade secrets, without revealing them?

As mentioned in the answer to Question 32, there are some reasonable steps that should be taken in any firm, irrespective of the size of it, to protect trade secrets: confidentiality agreements, limiting access for departing employees, explaining the recipient of TS understand their confidential nature and strict physical and IT security.

It is also advisable to further protect TS through the use of IPRs, such as patents, as explained in the answer to Question 6.

21. What qualifies as a trade secret? Which are the requirements for being considered a trade secret?

For information to be considered TS, 3 conditions must be verified:

1. It is secret for all people outside the circles that normally handle this type of information;
2. It has commercial value because it is secret;
3. It has been subject to reasonable measures by the person who legally has control of the information, to keep it secret.

22. Is a trade secret IP?

Yes, the TS are IP, and this is recognized in the TRIPS agreement and in the legislation of all the states of the EU.

23. Can you give me examples of trade secrets?

- The Google Search Algorithm
- The formula of Listerine
- Coca-Cola's recipe for their signature drink
- Secret client lists at any company

One is patentable (Listerine) the other (Coca-Cola) not

24. How do investors see trade secrets?

Investors generally prefer other IP because if your invention or the information is secreted, it becomes very difficult to communicate to others what is the value. It is clear that the publicity given to an invention through a patent could help other investors to analyze the value and the possibilities of commercialization of the invention. In some cases, like public funding, the publicity of the information is mandatory.

25. What is the role of NDAs when dealing with trade secrets?

Non-disclosure agreements, also called confidentiality agreements, are legally binding contracts establishing the conditions under which one party (the disclosing party) discloses information in confidence to another party (the receiving party).

Depending on the number of parties disclosing information, non-disclosure agreements may be “one-way” (also known as unilateral) with one party disclosing information and

one party receiving information, or “two-way” (also known as bilateral or mutual) when there is a bilateral disclosure. Whenever the two parties wish to disclose information instead of relying on a “two-way” agreement, it is also possible to sign two unilateral non-disclosure agreements, which may sometimes facilitate negotiations on the drafting of such an agreement. Sometimes you may also see multilateral agreements, with more than two parties involved.

26. Who should have access to trade secrets?

Access to secrecy should be given ONLY to those within the firm who need the information to perform their duties.

27. Which are some of the best practices in establishing proof of ownership of a trade secret?

At least, you should first try to document in an internal registry your TS. You have to control physically and electronically who is using it and be sure that only people that really need that secret to make the product have access to the product. It is also important to keep audits of the firm practices and stipulate confidentiality agreements.

28. What happens when trade secrets are leaked? How do I prove it in court?²

Trade secret owners have the opportunity to enforce rights against those who have stolen confidential information by way of a court injunction, which is intended to prevent the further disclosure of the trade secret in question or the use of TS. Generally, there is also the possibility to claim damages in case of lost profits or economic losses stemming from the leakage and improper use of the TS.

In a court case, it is important that the TS owner shows:

1. The existence of a trade secret according to the definition (secrecy, economic interest, will of the owner to preserve the secrecy, appropriate measure to keep the information secret)
2. The infringement
3. The unlawful activity of the defendant

As a prerequisite, it is fundamental to demonstrate the ownership of the trade secret allegedly infringed. Moreover, courts generally consider it relevant to prove that the owner took all the suitable measures and made all the reasonable efforts to keep the information secret, OR that there was an actual knowledge by the infringer of the secrecy of the information.

² EUIPO, ‘The Baseline of Trade Secrets Litigation in the EU Member States’ (2018) available at: <https://euipo.europa.eu/tunnel-web/secure/webdav/guest/document_library/observatory/documents/reports/2018_Baseline_of_Trade_Secrets_Litigations_in_EU_Member_States/2018_Baseline_of_Trade_Secrets_Litigations_in_EU_Member_States_EN.pdf>

29. How to protect the trade secret when you have to discuss it in court?

A non-disclosure or confidentiality agreement.

30. Is having a trade secret a good strategy for prolonging the life of a patent by delaying the filing of a patent request?

This is an interesting possibility. The risk is that someone does reverse engineering, which is lawful. In that case it could no longer be patented.

31. How to measure the criteria of “reasonable steps” that should be taken to keep the information secret? What are the roles of the Human Resources (HR) and the Information Technology (IT) teams in protecting a company’s trade secret?

Unfortunately, there is no clear standard for what types of reasonable measures a firm must take. Things like confidentiality agreements, limiting access for departing employees, explaining the recipient of TS understand their confidential nature and strict physical and IT security.

32. What are the biggest threats to trade secrets?

Misappropriation or reverse engineering.

33. What remedies can be used to address the problems of misappropriation of trade secrets?

For the prevention of misappropriation, see answer to Question 32 as well as Questions 15, 26, 28.

Actual remedies following misappropriation according to EU Directive 2016/943:

- Injunctions and corrective measures
- Damages
- Sanctions

34. How to guarantee a lawful acquisition of a trade secret?

Compared with a patent, it is more difficult to transfer and license confidential information and to resolve disputes which may arise. Since a potential licensee needs to access the trade secret information in order to assess its value or utility, a non-disclosure or confidentiality agreement needs to be signed between the potential licensor and licensee.

35. Can you recommend a publication about TS?

European Commission, Executive Agency for Small and Medium-sized Enterprises, *Trade secrets: managing confidential business information*, Publications Office (2021) available at: <https://op.europa.eu/en/publication-detail/-/publication/5f1c6d8a-f015-11eb-a71c-01aa75ed71a1/language-en/format-PDF/source-227370609>

36. Could you please talk about the exceptional cases in the TS directive in which unlawful disclosure of trade secrets should not be sanctioned?

Journalists remain free to investigate and publish news on companies' practices and business affairs, as they were before. The Directive only deals with unlawful conduct by which someone acquires or discloses, without authorization and through illicit means, information with commercial value that companies treat as confidential in order to keep a competitive advantage over their competitors. If no unlawful conduct takes place, the relevant disclosure of the trade secret is out of scope of the Directive and therefore not affected by it.

Even when a trade secret is misappropriated, the Directive foresees a specific safeguard in order to preserve the freedom of expression and right to information (including a free press) as protected by the Charter of Fundamental Rights of the European Union. The safeguard is operative if the divulgence of the trade secret that was acquired by, or passed to the journalist, was through the use of illicit means such as the breach of law or contract.

The directive does not alter the current legal obligations on companies to divulge information for such public policy objectives. The public interest prevails over private interest in such matters. Companies are subject to legal obligations to disclose information of public interest, for example, in the chemical and pharmaceutical sectors. Such regulations, which ensure a high level of transparency, are not affected. The directive does not provide any grounds for companies to hide information that they are obliged to submit to regulatory authorities or to the public at large.

Moreover, the directive does not alter and does not have any impact on the regulations that foresee the right of citizens to access documents in the possession of public authorities, including documents submitted by third parties such as companies and business organizations.

In addition, the directive expressly safeguards those who, acting in the public interest, disclose a trade secret for the purpose of revealing a misconduct, wrongdoing or illegal activity. This safeguard is operative if the trade secret was acquired or passed to the whistle-blower through the use of illicit means such as the breach of law or contract. If no unlawful conduct takes place the disclosure of the trade secret is out of the scope of the directive and therefore no safeguards are necessary.